

Fairfax County Economic Index

Volume VI, Number 5

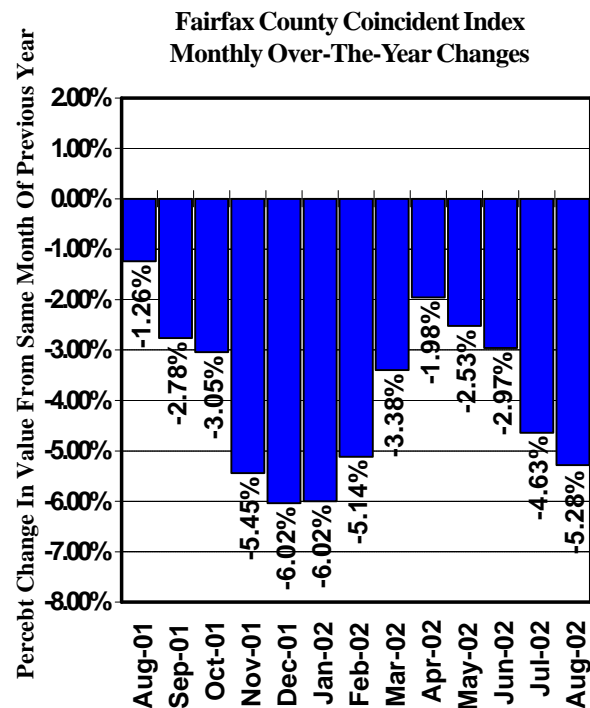
October 2002

County Economy Weak in August Indicators Point to Renewed Growth

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, declined to 120.14 in August, down 1.17 percent from July. With this decline, the Index has been down in four of the last five months and is well below its 12-month moving average trend line. March was the last month in which the County's economy outperformed this recent historic trend. In August, three of the Index's four components were negative.

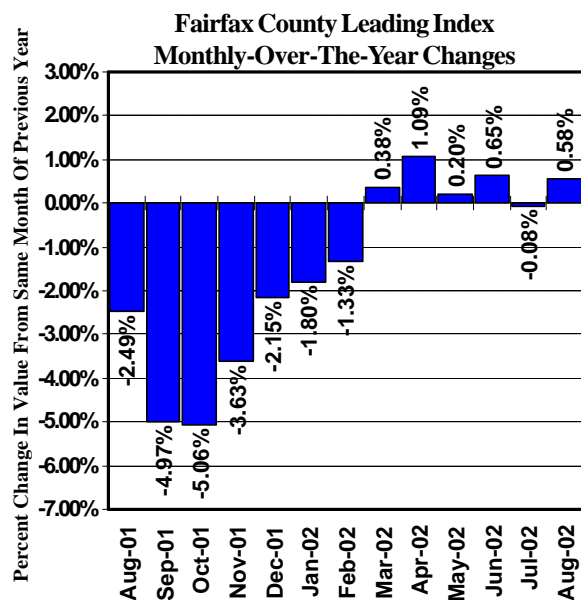
- Total employment decreased for the fourth time in five months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for the sixth consecutive month; and,
- Consumer confidence (in the present) decreased sharply for a second month in a row; while,
- Sales tax collections, adjusted for inflation and seasonal variation, registered strong gains for a second consecutive month.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 103.79 in August for a



Source: Center for Regional Analysis, George Mason University

0.58 percent gain. This increase offset the Index's decline in July and slightly exceeded the 12-month moving average trend line. The Index's recent performance has reversed its downward trend that began in January 2000. Beginning with March, the Index has outperformed its same-month value in 2001 for five of the past six months.



Source: Center for Regional Analysis, George Mason University

In August, three of the Index's five components, contributed to its gain.

- Initial claims for unemployment insurance decreased (improved) for the second time in three months;
- Consumer expectations (consumer confidence six months hence) partially recovered its July losses and has now increased in two of the last three months; and,
- The total value of residential building permits increased for the second month in a row; while,
- New automobile registrations declined slightly following their sharp gain in July; and,
- Residential building permits declined for the fifth consecutive month.

The weakness appearing in the Fairfax County economy during the second quarter has carried through the summer reflecting a similar pattern in the Washington area and national economies. The softening of the economy resulted from a continuing loss of consumer confidence

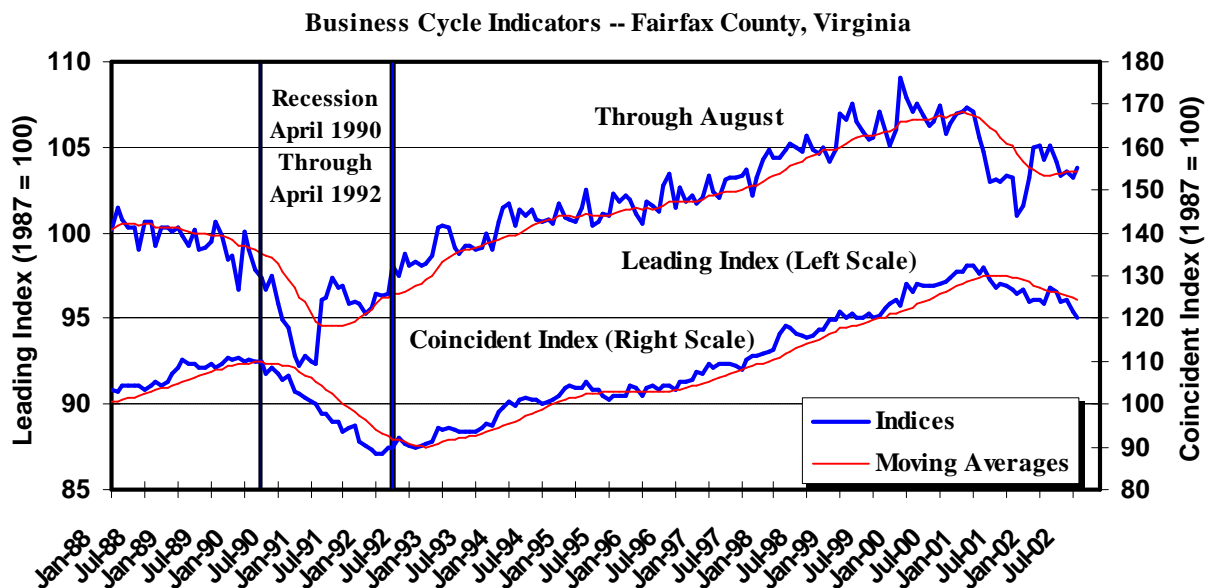
in combination with continuing losses in the financial markets. Additionally, the County's labor market has not grown during the last five months confirming the slowdown in the economy's expansion. However, while these current indicators were weakening, the leading indicators have been slowly gaining strength. With their stabilization in the first quarter and slow gains since, they are pointing to the economy's re-acceleration. Whether this re-acceleration begins in the fourth quarter or the first quarter of 2003 will depend on both economic and non-economic factors largely at the national level.

CURRENT CONDITIONS

The Fairfax County economy had its worst performance last December and January followed by steady improvement through April. However, since April, its performance gap between this year and last year (same-month) has worsened. This slowing of the economy is seen in its inability to generate substantial job growth and in decreased or uneven consumer spending. Nevertheless, the County's economy remains strong; it is just not accelerating. It continues to grow enough to keep unemployment below 3 percent. And in recent months, lay-offs have declined indicating that the local labor market is beginning to stabilize.

The fact that the resident labor force is 1.1 percent smaller than a year ago reflects the uncertainty in the economy. A smaller resident labor market often means that workers who have lost their jobs are giving up the job search and dropping out of the market. Additionally, some workers may have voluntarily withdrawn from the labor force due to the unfavorable market conditions. In a growing economy, the resident labor market is growing and unemployment is declining. Furthermore, the County's employment base will be expanding in a growing economy. As of August, none of these conditions were present.

Consumer spending has been the backbone of the economy throughout its slowdown. Consumer spending has increased in



Source: Center for Regional Analysis, George Mason University

spite of decreasing consumer confidence and, as a result, this is the first business cycle downturn in which both housing sales (new and resales) and retail spending increased while the job base shrank and unemployment grew. How long consumer spending can continue to underpin the economy is not known. As long as interest rates remain low and mortgage refinancing continues to free up cash, consumer spending is likely to remain strong. Even though consumer confidence dropped 25 percent in July and August, erasing its gains earlier in the year, retail sales increased during these same two months after declining in four of the previous five months.

NEAR-TERM OUTLOOK

The Leading Index is providing a clear signal that the Fairfax County economy will re-accelerate within the next two quarters. Two important indicators—initial claims for unemployment insurance and consumer expectations—forecast critical future conditions in the current economy. Decreasing initial claims for unemployment insurance indicate that employee lay-offs are slowing. Initial claims dropped almost 35 percent in June and 15.3 percent in August. While still up for the year,

they are up only 5.6 percent. As the economy strengthens, initial claims will fall back to normal levels and job growth will accelerate.

Consumer expectations increased sharply at the end of 2001. However, a variety of disappointments undermined expectations in the spring and summer. With a small gain in June and a larger increase in August, consumers appear to be saying that the economy will be stronger in the near future even though it is not strong now. For the year, consumer expectations are down only 0.9 percent. With growing confidence, consumers will continue spending and increased sales will support increased business investment. The economy cannot fully recover without greater business investment and business investment will not accelerate until demand increases. Improving consumer expectations are one of the key indicators of future growth.

Given the length of the current slowdown it is not likely to re-accelerate rapidly. With stronger economic conditions anticipated during the fourth quarter, the County's economy should begin recording monthly over-the-year gains by year's end. And, with continuing slow acceleration, increased job growth will follow and support further expansion in 2003.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Aug-02 Prelim.	Jul-02 Final	Aug-01 Final	Jul-02 to Aug-02	Aug-01 to Aug-02
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	120.14	121.56	126.84	-1.17	-5.28
Leading Index (1987 = 100)	103.79	103.21	103.19	0.56	0.58
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	560,497	561,996	553,922	-0.27	1.19
<i>Total Covered Employment (Unadjusted)</i>	<i>560,766</i>	<i>565,155</i>	<i>554,188</i>	<i>-0.78</i>	<i>1.19</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	261	270	328	-3.11	-20.44
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>513</i>	<i>511</i>	<i>620</i>	<i>0.41</i>	<i>-17.34</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,041	8,415	8,242	7.44	9.69
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>11,246</i>	<i>10,631</i>	<i>10,472</i>	<i>5.78</i>	<i>7.39</i>
South Atlantic Consumer Confidence	99.2	110.1	150.6	-9.90	-34.13
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,110	6,133	6,737	-0.38	-9.31
<i>Automobile Registrations (Unadjusted)</i>	<i>6,907</i>	<i>6,973</i>	<i>7,616</i>	<i>-0.95</i>	<i>-9.31</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,871	2,210	1,771	-15.34	5.63
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,726</i>	<i>2,211</i>	<i>1,634</i>	<i>-21.94</i>	<i>5.63</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>99.5</i>	<i>95.1</i>	<i>100.4</i>	<i>4.63</i>	<i>-0.90</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	374	475	329	-21.18	13.78
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>421</i>	<i>499</i>	<i>370</i>	<i>-15.63</i>	<i>13.78</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	29,820	26,608	27,015	12.07	10.38
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>57,229</i>	<i>46,654</i>	<i>49,900</i>	<i>22.67</i>	<i>14.69</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	586,738	585,699	593,179	0.18	-1.09
<i>Total Labor Force (Unadjusted)</i>	<i>594,830</i>	<i>601,528</i>	<i>601,359</i>	<i>-1.11</i>	<i>-1.09</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.92	2.54	2.12	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.99</i>	<i>2.44</i>	<i>2.18</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

Prepared by:
**Center for Regional Analysis
George Mason University**

We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

Inquiries should be directed to:

The Fairfax County
Department of Management and Budget
12000 Government Center Parkway, Suite 561
Fairfax, Virginia 22035-0074

(703) 324-2391 or 1-800-828-1120 (TDY)